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# INDUSTRIAL DEVELOPMENT AND COOPERATION ACTIVITIES: EQUITABLE DEVELOPMENT THROUGH INDUSTRIAL DEVELOPMENT

**Small and medium enterprises**

Report by the Director-General

**Summary**

Updates information provided in document GC.6/5 and describes the role of UNIDO as regards enhancing the role and contribution of SMEs to the industrial development process.

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## Introduction

1. The General Conference, in resolution GC.5/Res.5, requested the Director-General to present to the Conference, at its sixth session through the Industrial Development Board, a report on the implementation of the UNIDO programme on small- and medium-scale industries. The initial report presented to the Board (GC.6/5-IDB.13/12, chap. IV) provided information on progress made on the implementation of the programme up to mid-1994 and on the areas of concentration. Subsequently, in the proposals of the Director-General for a strengthened focus of UNIDO programmes (IDB.14/13), development of small and medium enterprises (SMEs) was identified as one of the seven programmatic themes proposed for the 1996-1997 biennium. Four components through which that theme would be addressed were specified. The present document is an updated report on activities carried out under the programme subsequent to the issuance of document GC.6/5. It should, however, be read in conjunction with relevant portions of document IDB.14/13 (paras. 80-92), which constitutes the background for the ongoing, gradual prioritization and consolidation process of the SME programme.

2. In the present global context, SMEs often are credited with technological innovation and advances, higher competitiveness, and faster response to market conditions. The distinction between large and small firms is, however, breaking down, as large firms increasingly restructure themselves into smaller and decentralized units of production which collaborate with buyers and external suppliers. In most developing countries, however, SMEs cannot fully develop and mobilize, on their own, the information, technological and managerial know-how and financial resources required to operate competitively and efficiently and thus be able to use their full potential and contribute optimally to overall industrial and economic growth. Their development process is often constrained by an overall unfavourable policy environment, inadequate institutional support and the absence of an enabling government policy that supports innovation, facilitates access to financial and technological resources and to markets, and promotes inter-firm competition and cooperation. Moreover, SMEs often lack linkages with business partners and access to markets.

3. During the current biennium, the UNIDO SME programme was developed to address the following issues:

(a) Government policy;
(b) SME support systems and institutions;
(c) Networking of SMEs;
(d) Enterprise upgrading.

4. These issues are continuously reviewed to ensure delivery of the most relevant and effective services. For this purpose, the SME programme has established an observatory and research network that includes an advisory group and a world-wide network of experts and institutions from developing and industrialized countries. The exchange of information and action-oriented research provides UNIDO with state-of-the-art information on SME sector development trends and on the effectiveness of support mechanisms and government intervention methods, thereby providing a basis for refining the scope and enhancing the efficiency and impact of the programme.

5. The underlying principle of the focused SME programme is to contribute to improving the policy and institutional environment in which SMEs operate. Major attention is given to policy advisory services aimed at building up national capabilities in respective countries. The approach is to integrate advice, training and research. In 1994 and 1995, cross-organizational SME programmes were formulated to respond to the identified demand for integrated, multidisciplinary services and to draw on the range of specialized expertise of the Organization. These programmes followed a bottom-up approach and involved the recipients in the design and implementation of programmes and projects. In addition, cooperation and coordination with related bi- and multilateral donor programmes were pursued, through networking with institutions and experts specializing in SME development to ensure complementarity and avoid overlaps. Technical cooperation in the area of SME support systems and institutions was guided by the following principles aimed at ensuring sustainability: promotion of decentralized support services and networking among SMEs; promotion of equitable access to support services, taking also into consideration regional imbalances and gender issues; introduction of commercial orientation in the provision of support services.

## I. GOVERNMENT POLICY

6. The main thrust of this programme component is to strengthen national capabilities to establish and maintain a policy and institutional environment for promoting the SME sector and its contribution to industrial growth, modernization and competitiveness. Particular emphasis is on promoting cooperation between government, industry associations, and private and public support institutions.

7. During the biennium, the services rendered by UNIDO involved:

(a) Assisting Governments to formulate and manage national strategies and programmes to promote

the development of the SME sector, in cooperation with industry associations, and private and public support institutions. The basic aim is the integration of SMEs and relevant policies into national industrial and economic development strategies and policies. Assistance was provided to develop SME policies that are interrelated, focused and targeted towards enhancing the overall efficiency of the economy;

(b) Strengthening national capabilities to collect and analyse SME sector-related information, since sector baseline data are crucial for policy and strategy formulation; such baseline information also includes data for analysis of such concerns as gender issues;

(c) Assisting Governments and their national institutional partners to develop mechanisms to ensure effective implementation and continued fine-tuning of strategies and policies, including effective cooperation between institutions and regular interaction of industry associations and support institutions with Government on policy and regulatory measures;

(d) Contributing to improving the policy and regulatory environment in which SMEs operate. For example, UNIDO has a leading role in advising Governments and their institutional partners in policies affecting innovation, access to technological information, industrial technology transfer and development and promotion of inter-enterprise linkages and partnerships;

(e) Assisting Governments with institutional policy, i.e. to develop new or amended legislation, regulations and incentives to promote a network of appropriate demand-driven institutions and support mechanisms.

8. An example of such services can be seen in Romania, where policy advice provided by a UNIDO project led to the creation of the Centre for Promotion of Small and Medium Private Enterprises. Drawing from the successful experience of supporting SME development in Romania, a new project was developed and initiated in 1995 to provide umbrella support to three countries (Albania, Kazakhstan and Republic of Moldova) in the establishment of sustainable organizations and systems for the promotion of private sector SMEs, following the approach of the Romanian project. The immediate objective is to provide a framework for three national programmes that will support a favourable and predictable environment for SME development in the selected countries.

9. Policy research on SMEs is currently being carried out in Central European countries with the objective of providing a comparative analysis of strategies, policies and programmes as a basis for complementary and collaborative development initiatives. The research will not only provide a framework for the design of collaborative projects in the future, but also help to identify policy and programme elements (both good and bad practices) in the respective countries and provide UNIDO and donors with guidelines for fine-tuning their support efforts.

10. Another example of UNIDO support to SMEs is the preparatory assistance carried out in Viet Nam. Following a participatory approach, including the organization of an objectives-oriented project planning workshop, the assistance resulted in the outline of a national SME strategy. Based on the priority areas outlined by the workshop, a major UNIDO support project funded through a German contribution to the Industrial Development Fund was developed. The project aims at institution-building and direct support in the form of advice on streamlining selected legal and regulatory provisions. Similar approaches are being followed in Bolivia (with a focus on women entrepreneurs), Palestine and Swaziland.

11. For most developing countries, SME programmes are being placed in the context of overall private sector development. As such, services for SME development rely on the existence of an enabling environment in which the private sector, and particularly SMEs, can prosper. Linkages are therefore sought between SME activities and overall industrial policies for national and regional development and institutional support programmes. Respective policy advice is aimed at providing a sound framework combined with capacity-building of institutions in support of the private sector, and SMEs in particular. Such integrated services are being provided in the Republic of Moldova, where complementary policy advice is provided on economic, institutional and procedural structures to pave the way for an SME development programme. In Lesotho, the public sector is to be restructured to facilitate the implementation of a SME capacity-building programme.

12. According to the five UNIDO regional studies on the participation of women in manufacturing, one of the major strategies for promoting the participation of women in industry is to create a conducive policy and institutional environment. Therefore, special efforts were made to create awareness and national capabilities to take into account women's concerns in the formulation of SME policies related to overall industrial development on the one hand, and to introduce specific policies and measures to support growth of women entrepreneurs in small-scale industries, on the other.

## II. SUPPORT SYSTEMS AND INSTITUTIONS

13. In the past UNIDO was instrumental in the creation of a substantial number of SME support institu-

tions in developing countries, as well as in the strengthening of existing ones. However, many of these mainly public institutions gradually became ineffective as they were often poorly managed, did not have adequate resources and thus failed to have the expected outreach and impact. Lessons learned in the past led to a revised programme approach. Focus is now placed on designing services bottom-up and encouraging concerned institutions (public and private) to work together in a networking manner, stimulating a common language between these institutions and the entrepreneurs and facilitating access to know-how, business partners and resources. The key element is that the institutions are decentralized in their operations and cater to specific target groups within a region or specific subsectors. Special attention is given to the strengthening of private sector representative organizations to assist their SME members.

14. Thus, the main objective of this programme component is to strengthen the access of SMEs to an efficient network of technical and financial services that help them to upgrade continuously their products and process technologies and the skills of their personnel, and to develop efficient linkages with markets and sources of supply.

15. During the biennium, UNIDO has focused on strengthening such institutions as SME development agencies, industry associations, chambers of commerce and industry and human resource and technology development institutions. Support has been designed to enable them to provide better services, on a demand-driven and sustainable basis in marketing, management, industrial information, technology acquisition and development, skills upgrading, quality assurance, finance and other areas. Assistance also included promotion of networking among such institutions. Examples include the comprehensive SME promotion and service programmes carried out in Burkina Faso and Niger (organization of complete support systems) and in Cameroon and Senegal (networking between support institutions and specific groups of enterprises), as well as new activities in Nigeria (organization of decentralized institutions). To support such programmes, special tools to reduce SME investment risk, to monitor enterprises and to train consultants are being developed under the Industrial Development Decade for Africa. In Guinea, the experience of an ongoing integrated SME assistance project (covering financial and technical cooperation to SMEs in the provinces) attracted the interest of the Caisse Française de Developpement. That bank is considering supplementing substantially the revolving fund in the UNDP/UNIDO project.

16. Under the technical support services at the programme level (TSS-1) UNIDO provided inputs to a number of UNDP-led private sector development support programmes, including those in Benin and Equatorial Guinea. Such programmes usually involved cooperation with other United Nations agencies (particularly the International Labour Organization) and donors. Through an ongoing SME support programme, UNIDO is coordinating the formulation of the UNDP Private Sector Development Programme framework in Zaire, with involvement of other United Nations agencies and donors. A guiding theme is promoting the creation of networks of support institutions and services that work together in an efficient and coherent manner with a view to fostering productivity and competitiveness of existing SMEs and to facilitating the creation of new enterprises through, for example, business incubation schemes. An example of the latter schemes are projects under implementation in economies in transition such as Poland and Uzbekistan.

## III. NETWORKING OF SMES

17. The networking of SMEs among themselves and with large manufacturing firms through production linkages is an indispensable dimension of industrial resilience and competitiveness. Subcontracting, supply and partnership relations between industries of various types and sizes, especially between large and small enterprises, is therefore a feature of every modern industrial economy. As subcontracting and similar linkages between small and large industries are important for the development of the SME community, UNIDO further expanded activities in this area.

18. The regional programme and network of subcontracting and partnership exchanges in Latin America, comprising 28 exchanges in 13 countries, is being extended to Costa Rica and probably to El Salvador and Honduras. It is also being consolidated through the organization each year of two regional subcontracting fairs — "SUBCONTRATA-Latino Americana" — training seminars, the enhancement of the databases and through the reorganization of the new executive committee of the regional network.

19. The regional Arab network of subcontracting and partnership exchanges has also been consolidated, and its capacity to develop close partnership relations with European enterprises and institutions has been considerably enhanced through the organization of specialized partnership fairs, promotional missions and marketing surveys. Other countries from the region, such as Lebanon and Saudi Arabia, have also expressed interest in joining the network.

20. Subcontracting and partnership exchanges being set up at the national level include Slovakia, with financing by the European Union (EU) PHARE programme. This represents the first UNIDO EU project

contract on the basis of the unique competence and comparative advantage of UNIDO. A feasibility study for the creation of an exchange in Mauritius was undertaken and another is being conducted for the establishment of a pilot exchange in Moscow. In 1995, priority was accorded to the strengthening of the methodology, such as a new version of the UNIDO Industrial Subcontracting System (UNIDOSS) software and preparation of a UNIDO guide on the establishment of subcontracting and partnership exchanges, and to the dissemination of the programme to other regions, including Central and Eastern Europe and Eastern Asia.

21. With regard to networking and cooperation at the subsectoral level, major activities were initiated aimed at organization and development of subsectoral clusters of SMEs. Support was provided to groups operating in the same or complementary industrial subsectors in order to improve specialization and cooperation among SMEs of the cluster, and thus to realize collective efficiencies. Specialization and cooperation mitigate diseconomies of scale and open up efficiency gains through the generation of external economies and joint action. Successful projects in this field are under way in Bolivia, Honduras, Jamaica, Madagascar and Nicaragua and the demand for them is increasing. In Honduras, for instance, where the first project of this kind was initiated in 1993, UNIDO helped to organize some 30 groups of small firms into cooperative networks in subsectors such as clothing, footwear, furniture, woodworking, metal-working, agro-processing and packaging. The programme assisted clusters of enterprises in the assessment of their competitiveness, promoting inter-firm linkages including forward linkages (with buyers of final products) and backward linkages (with input suppliers), establishing common service facilities and self-help service centres, in addition to self-managed joint technical upgrading and collaborative learning mechanisms designed to improve quality, decrease costs and reduce waste.

## IV. ENTERPRISE UPGRADING

22. Basic UNIDO technical support to SMEs addresses the enhancement of productivity, quality and competitiveness; restructuring requirements and employment generation; technological absorption and innovation; and energy efficiency and environmental protection in the SME sector.

23. In India, a preparatory project was initiated to discuss issues related to safety promotion in small and medium chemical and allied industries, and to identify and examine urgent problems. This project will ultimately lead to securing safety of industrial workers and environmental integrity on and around the chemical production plants by networking of industries, non-governmental organizations and the Government. Another example is the assistance provided in strengthening the training capabilities of the Central Institute of Plastics Engineering and Technology through a programme for training of trainers. Assistance involved product design, rational use of plastic materials, trouble-shooting, training of SME personnel, increasing market competitiveness and environment protection from pollution by plastic materials through recycling.

24. In several developing countries SMEs processing medicinal and aromatic plants were supported in upgrading their technologies and improving quality to meet international standards for export, as well as to serve local markets. For example, advisory services were provided in Indonesia in setting up a training centre for technical staff of SMEs in-plant based medicinal products and to develop new product packages. Technical support continues for small-scale producers of traditional perfumery preparations in India, through the Product and Process Development Centre set up at Kannauj.

25. In addition to artisanal activities related to stone craft and pottery, a significant part of activities in the building materials sector was specifically focused on support to SMEs, especially in Africa. The emphasis was on supporting entrepreneurs in technology transfer and acquisition, and on training in the effective management of technologies. The assistance gave priority to the training of women to enhance their management role, promoted the introduction of clean and energy-saving technologies and raised local awareness of global market trends and opportunities for export products.

26. Building up capacities in technology acquisition and negotiation through systematic educational activities is also a continuing activity geared toward assisting SMEs in particular. This activity aims to develop the ability to access and effectively utilize knowledge and information to help SME staff in the process of finding, evaluating, acquiring, negotiating and implementing technology transfer projects. Such capacity-building programmes with a very strong SME component and orientation were implemented in 1995 in Brazil and in the African and Arab regions.

27. A technology promotion tool geared specifically to small- and medium-scale industries is the Techmart programme. As a business forum, the six Techmarts held to date have provided project promoters representing primarily SMEs in China, India, Viet Nam, Zimbabwe and in the countries of the Common Market for Eastern and Southern Africa, with opportunities to source, assess and subsequently conclude technology and joint ventures with technology owners and developers from developed and developing countries alike. Additional information on recent and forthcoming Techmarts is provided in paragraphs 4 and 5 of document GC.6/26, which also

describes related activities, that offer promotional support to SMEs including the 1995 InTechmart held at New Delhi, India.

28. To assist SMEs in cultivating a tradition and culture for international competitiveness, UNIDO developed special technology management tools and techniques. For example, a National Workshop on Technology Management for Enterprises was conducted at Nairobi, with the objective of sensitizing and assisting selected Kenyan SMEs in the introduction of such techniques. As a follow-up, further technology innovation projects are envisaged. A manual for self-diagnosis of critical technological needs for sustained competitiveness of SMEs is under preparation. The manual will provide a methodology for the assessment of SME technological position and future opportunities.

29. Large-scale training programmes for women entrepreneurs in the food-processing sector are currently under implementation in Botswana, Gambia, United Republic of Tanzania, Viet Nam and seven countries in Central America. The aim is to introduce the managerial skills and technical knowledge required for the establishment and operation of small-scale units/enterprises. Entrepreneurial awareness, basic business and management skills, combined with technology choice and technical aspects of production are among the main subjects covered.

30. In cooperation with the All China Women's Federation, UNIDO has launched a programme to develop a model training package in management training of women township entrepreneurs. Based on a needs assessment conducted with women entrepreneurs from Beijing, as well as from the provinces of Hebei, Shandong and Jiangsu, a training-of-trainers workshop on conducting management training according to the new package was held in 1994 at Beijing and Singapore for 30 Chinese participants. The programme is envisaged for replication throughout China, after being modified according to the specific needs of township enterprises in the respective regions.

## V. CONTRIBUTION OF SMES TO RURAL DEVELOPMENT

31. Under this UNIDO programme, the goal is productive employment and income generation in rural areas. UNIDO has been instrumental in: (a) the creation of competitive non-farm entrepreneurial and employment opportunities through the promotion of rural small-scale industries as alternative and supplemental economic activities on the basis of local resources and markets; and (b) increasing the income of small-scale farmers by: (i) increasing demand for their produce as inputs to industrial processing; and (ii) enhancing their agricultural productivity through the provision of improved industrial inputs such as tools, equipment and chemicals. By enhancing forward and backward linkages between agriculture and SMEs in rural areas and townships as well as through final demand linkages, the programme contributes to raising the income of rural population, particularly of small-scale farmers, fishermen and rural small industrial entrepreneurs and workers.

32. In 1994 and 1995, more than 80 technical co-operation activities have been carried out that are broadly considered to contribute to rural development. Almost half of those were carried out in least developed countries. In addition, UNIDO convened annual meetings of the inter-agency Working Group on Industrial Contribution to Rural Development of the Administrative Committee on Coordination Sub-Committee on Rural Development. In 1995, experiences of the United Nations agencies on 14 different schemes and programmes to promote rural industries were reviewed. A study on intersectoral linkages and their impact on rural poverty alleviation was issued.

33. Rural SMEs often lack access to market, technical and financial information and services that are more easily available in urban areas. In order to improve the strength of rural SMEs under increasingly competitive markets, the programme emphasized the strengthening of technical capabilities of institutions in rural areas and of promoting networking among themselves to improve accessibility of rural entrepreneurs to such services as business planning advice, preparation of loan proposals, dissemination of information or referral services on equipment sourcing and other critical inputs, and the organization of training programmes. This type of project has proven successful in Kenya, Micronesia, the Solomon Islands and Zambia. In the state of Pohnpei in Micronesia, the Pohnpei Entrepreneur Development Centre was created, which organizes existing service facilities. In this process, about 50 businesses have begun or expanded and some 300 new jobs have been created in the rural area. Similar projects have started up in Lesotho and Mozambique. Revolving fund facilities for rural entrepreneurs were proven useful in rural Guinea and Zambia, where no access to other sources of finance existed. UNIDO also introduced projects to strengthen clusters of SME subsectors in rural areas of Bolivia, Honduras and Nicaragua.

34. Projects aiming at human resource development were implemented for rural women and entrepreneurs. The training programme referred in paragraph 30 above enabled 40 trainers to conduct training programmes now ongoing in rural areas of China designed to improve the competitiveness of women entrepreneurs. Another training programme benefiting women in rural areas, particularly in the United Republic of Tanzania and in Viet Nam, is the large-scale programme for women

entrepreneurs in the food-processing sector (para. 29 above). In Guinea and Mali artisans were trained to improve quality and design of hand-crafted textiles. Together with the United Nations Population Fund, activities continued in rural Sudan to improve the condition and status of women through productive skill development and training in health management. Drawing on its experience, UNIDO has started to prepare a village industry development package that incorporates issues related to rural life style.

35. The SME sector contributes to increased incomes of rural areas through industrial utilization of resources such as vegetables, fruits, plants, animal derivatives, mineral and wood. For example, rural women in Burkina Faso and Mali have benefited from the development of affordable and user-friendly food-processing equipment that uses inexpensive energy sources. Technology for quality improvement in traditional fish processing has been introduced in Morocco, Pakistan, Senegal and Togo. Industrial processing of medicinal and aromatic plants has continuously been promoted. In eight African countries, improvement schemes directed at hides and skins elevated agro-based indigenous, renewable raw material sources to a higher value added stage. Traditional pottery-making in Bolivia was revitalized by improving production technology, working procedures, selection and treatment of raw materials and product designs. In the predominantly rural Nghe An Province of Viet Nam, an improved technology was introduced to add value to marble resources. Furniture making was promoted to revitalize the wood-working sector in the state of Campeche in Mexico, and small-scale entrepreneurs received training in the local production of construction materials in rural areas of Bhutan, Cameroon, Guatemala and Madagascar.

36. SMEs produce and provide repair and maintenance services for tools and equipment that are crucial inputs to productivity in agriculture. For example, during the reporting period, regional projects continued in Asia to improve agro-related metalworking industries, while in Africa, a regional pilot programme was introduced to manufacture and test hydraulic maintenance presses and hammer mills. In Uganda an existing agricultural implements factory that produces ox-carts and hammer mills was rehabilitated. Prototype mobile seed dressing applicators tailored to the needs of African farmers were developed. In Asia and the Pacific water-based and biobotanical pesticides, which are safer than traditional chemicals, were promoted in the framework of the UNDP FARM (farmer-centred agricultural resource management) programme.

37. Other activities during the biennium related to SMEs' contribution to rural development included energy conservation and improved transport facilities in rural areas. For example, activities to promote energy efficiency in township and village enterprises were initiated in China and new and renewable sources of energy are being promoted in the Democratic People's Republic of Korea. Low-cost rural transport devices were introduced to small workshops in Zimbabwe.

38. The contribution of SMEs to rural development is extensive — from creating non-farm employment and income generation to releasing women from time consuming, strenuous activities, and increasing the revenue of small-scale farmers by enhancing their forward and backward linkages with SMEs. The UNIDO programme to enhance the contribution of SMEs to rural development offers impact-oriented, effective services by applying multi-sectoral expertise available at UNIDO to the specific conditions of each country.

## VI. ACTION REQUIRED OF THE CONFERENCE

39. The Conference may wish to take note of the information contained in the present document.